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UNCLAS SECTION 01 OF 03 ANKARA 007790

SIPDIS

SENSITIVE

STATE FOR E, EB/CBED, EUR/SE AND NEA/NGA  
TREASURY FOR OASIA - JLEICHTER AND MMILLS  
DEPT PLEASE PASS USTR FOR CNOVELLI/LERRION  
FAS FOR ITP/THORBURN  
USDOC FOR ITA/MAC/DDEFALCO  
DEPT PASS OPIC - BRIAN TREADWELL  
DEPT PASS EXIMBANK - RAY ELLIS

E.O. 12958: N/A

TAGS: [ECON](#) [PREL](#) [ETRD](#) [EINV](#) [ENRG](#) [BEXP](#) [KIPR](#) [TU](#) [IZ](#)

SUBJECT: Economic Partnership Commission: Comment on  
Action Items and Next Steps

[1](#)1. (U) This is an action cable. See paras 13 and 14.

Summary/Introduction  
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[1](#)2. (SBU) Washington's draft EPC action plan can help build a stronger bilateral economic and commercial relationship with Turkey on economic reform, investment, trade, energy and regional issues. Although the GOT accepted much of this program in comments given to EUR/SE on December 12, their proposed changes indicate they are not ready to commit to resolving investment disputes. We recommend rejecting the GOT's language predicating tariff cuts for investors to resolve the Build-Operate-Transfer (BOT) disputes in the power sector. Embassy strongly endorses Washington's proposal of a follow-on visit by experts on intellectual property, agriculture, investment and WTO issues, and urges USTR to respond in writing to the Turks' QIZ proposal. End Summary.

Economic Reform  
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[1](#)3. (U) The Turks agreed with our proposed action items reinforcing the reform program. Embassy will continue to give particular emphasis to regulatory independence and privatization in our discussions with Turkish officials.

Investment  
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[1](#)4. (SBU) The GOT agreed to respond to the Advisory Committee on International Economic Policy (ACIEP) report, but watered down our suggested language on resolving investment problems and offered a text which presupposes that tariff cuts will be the answer to the BOT dispute. While resolving these issues is one of our top economic priorities, we do not believe the Turks will agree to a text committing them to do so. Embassy suggests the following language for the action item on investment and business disputes: "Both sides recognize that resolution of existing investment and business disputes with U.S. companies and investors doing business in Turkey is key to attracting greater foreign direct investment inflows." We recommend that Washington reject the Turkish Government's BOT language and propose the following text: "The parties noted that a resolution of the dispute with private power plants should be negotiated on the basis of mutual agreements." We will continue to raise the need for Turkey to resolve investment disputes - indeed, the Ambassador pushed hard on this matter with Ministers Babacan and Unakitan on December 17 (septel) - and suggest that it be raised with the Prime Minister during his January visit to Washington. Investment issues should also be on the agenda for the proposed experts visit on trade issues (see below).

[1](#)5. (U) Embassy will pass information on OPIC investment funds to the GOT shortly, as promised at the EPC.

## Trade

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16. (SBU) Eximbank: Embassy hopes to use the January 2003 visit of U.S. Eximbank staff to followup on our offer of assistance to the Turkish Eximbank on establishing a framework agreement with the Trade Bank of Iraq.

17. (SBU) Experts Visit: We strongly support Washington's offer of an expert visit on intellectual property rights (IPR), Turkey's nontariff barriers in agriculture and WTO compliance. We do not object to the Turkish proposal to discuss U.S. meat/poultry export issues in this forum. The Turkish Foreign Trade Undersecretariat is receptive to such a visit, and has hinted that these discussions need not take place in the Trade and Investment Framework Agreement (TIFA) context. In view of the imminent start of the Special 301 IPR cycle, Embassy urges USTR and USDA to visit Ankara as early as possible in the first quarter of 2004 (see action request below). The delegation should be prepared to offer an inventory of Turkish practices in IPR and agriculture which are inconsistent with its WTO obligations, and to drive home the point that Turkey is likely to be elevated to the Priority Watch List if corrective action is not taken. Offering our views in writing on Turkey's IPR regime could help spur corrective action on problem areas, such as data exclusivity.

18. (SBU) Qualifying Industrial Zones (QIZs): At the EPC, the Turkish delegation provided U/S Larson and USTR with a QIZ proposal that would provide duty free access for limited textile/apparel exports, provided that there is U.S. product content or ownership interest in the exporting company. Foreign Trade representatives told USTR and Econoff on the margins of the EPC that a QIZ without textiles is not worth pursuing, but MFA appears to disagree with that position. Embassy urges USTR to respond to the Turkish proposal in writing. Washington needs to make absolutely clear, and at the earliest possible date, the scope of the QIZ we are willing to pursue with Congress. Absent absolute clarity, we will repeat the unproductive dialogue on textiles and QIZs.

19. (U) Cooperation on Textiles: The GOT proposed a new item which would bring experts together to discuss "cooperation possibilities" in textiles and apparel for the post-2005 period. We raised this item in a meeting with Foreign Trade Undersecretariat officials on December 18. They responded that the Turkish exporters' unions had asked for this item, and that the U.S. textile and apparel industry was reportedly also interested in holding these discussions. Foreign Trade said it would consult with the exporters' union to further develop this proposal.

## Energy

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10. (SBU) Ambassador Mann is visiting Ankara this week to promote cooperation on both the Baku-Tbilisi-Ceyhan (BTC) pipeline and the completion of the Greek interconnector so that natural gas can transit Turkey to other European markets.

## Regional Cooperation

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11. (SBU) The GOT proposed language on cooperation in Iraq which calls on Turkey and the CPA, rather than just Turkey, to implement the December 1 - 2 agreement on border cooperation, and added a commitment to open a second border gate. We recommend reverting to our original wording, as the USG/CPA cannot promise implementation. This is something the Turks will have to do jointly with the Iraqis.

12. (SBU) Embassy suggests that we also considering coordinating diplomatic approaches to the Syrian Government to encourage greater cooperation and lower tariffs on rail shipments to Iraq via Syria.

## Action Requests

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¶13. (U) For USTR, USDA and other agencies: Embassy strongly recommends that Washington agree to send an expert-level delegation to Ankara to discuss IPR, agriculture, WTO and investment issues as soon as possible.

¶14. (U) For USTR: Embassy recommends that USTR respond in writing to Turkey's proposed QIZ legislation as soon as possible.

¶15. (U) Baghdad minimize considered.  
Edelman